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Weekly Intelligence Summary No. 28

## SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The continuing US-Peruvian aviation dispute may seriously affect US interests in Latin America. Peru's demands for the immediate reduction of US airline frequencies are unacceptable to the US even pending anticipated inter-governmental consultation. The situation will deteriorate still further unless a practical compromise can be found which will both moderate Peruvian intransigence and preserve the US civil aviation position. (Item No. 1)

The eight-fold increase of politically undesirable Czechoslovak air traffic through Athens has impressed Greek authorities with the necessity of restricting the facilities extended to the Czechoslovaks at Hassani airfield. (Item No. 2)

Clandestine air activities continue to expand. Evidences of such operations are: the training by an Italian air taxi company, ALICA, of pilots for the Israeli Air Force; and the plans of a British air charter company to establish, under suspicious circumstances, an air freight and air taxi service from Tangier to Arabia and to the Belgian Congo. (Item No. 3)

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The USSR has refused to permit British and French use of the US-controlled airfields at Tulln, thus further indicating its desire to restrict Western air operations into Vienna. (Item No. 4)

The recent Chinese cancellation of the Sino-Soviet air agreement covering Sinkiang Province probably does not reflect Chinese determination to assert its sovereignty and to insist that Soviet air operations on Chinese territory must cease unless they comply with Chinese terms. Leading from weakness, the Chinese appear only to have hoped that the cancellation would gain them a tactical advantage for extracting minor concessions from the USSR. (Item No. 5)

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## SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

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1. Further attempts to resolve the US-Peruvian civil aviation impasse (See Transportation Group Weekly, 24 August) have not yet produced a modus vivendi for the interim pending the inter-governmental consultation which is required by the bilateral air agreement in case of disputes between the two countries.

Peru's continued demands for the immediate reduction of US airline schedules to Peru are probably the result of strong pressure from the national-flag airline, Peruvian International Airways (PIA). The Peruvian carrier insists that continued operation of present US airline frequencies will have such a serious competitive effect that unless Peru is prepared to subsidize its operations, the company will be forced to liquidate. (There is actually little likelihood that such a subsidy will be forthcoming.)

The proposed reduction of US frequencies previously granted under the bilateral agreement is not acceptable to the US even as a temporary arrangement pending consultation. Acquiescence to the proposal, which the US regards as being in derogation of the existing bilateral agreement, would constitute a precedent endangering US air rights obtained throughout the world on the basis of similar agreements.

Unless a mutually satisfactory compromise is soon reached, it is likely that the potentially dangerous situation will deteriorate still further. If PIA should decide to terminate operations, its demise would probably be attributed by Peru to unfair competition of the US carriers. On the other hand, it is possible that Peru will arbitrarily revoke part or all of US traffic rights in that country. If no compromise can be reached which will both moderate Peruvian intransigence and preserve the US civil aviation position, US political and aviation interests in Latin America may be seriously affected by the continuing dispute.

2. The eight-fold increase of politically undesirable Czechoslovak air traffic through Athens has impressed Greek authorities with the necessity of restricting the facilities extended to the Czechoslovaks at Hassani airfield. The Greeks, therefore, plan to conclude speedily the current air negotiations with Belgium, Norway, Italy, South Africa and other friendly governments, and then progressively restrict Czechoslovak flights (now operating under temporary permission) on the grounds of the limited capacity of Hassani airfield. The Greek Government is planning, moreover,

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to reject any Czechoslovak proposal for the conclusion of a formal bilateral air agreement by stating that Greece is not interested at present since it is not in a position to take advantage of reciprocal provisions permitting Greek flights to Czechoslovakia.

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3. Clandestine air activities continue to expand. An Italian air taxi company, ALICA, is giving limited pilot training to ten students of various nationalities, five of whom are probably US citizens. It is believed that the students, receiving fifty hours of flight instruction by four former Italian Air Force pilots, are being trained for service in the Israelite Air Force. Another possible clandestine operation is revealed in the attempt of a British air charter company, (British Nederland Air Services, Ltd.,) to establish an air freight and air taxi service from Tangier to Arabia and to the Belgian Congo. The company's present fleet, however, is composed predominantly of short-range aircraft with limited airlift capacity, and therefore is clearly inadequate for organized airline operations over so vast an area. Various circumstances, including the fact that some of the company's pilots are Czechoslovaks, render the projected operations of British Nederland open to the suspicion of engaging in the current clandestine movement of aircraft and contraband to the Near East.
4. Indicative of the Soviet desire to restrict Western air operations into Vienna, the USSR has refused to permit British and French use of the US-controlled airfield at Tulln despite US approval of the British and French requests.
5. The recent Chinese cancellation of the Sino-Soviet air agreement covering Sinkiang Province probably does not reflect Chinese determination to assert its sovereignty and to insist that Soviet air operations on Chinese territory must cease unless they comply with Chinese terms. Leading from weakness, the Chinese appear only to have hoped that the cancellation would gain them a tactical advantage for extracting minor concessions from the USSR. That China may have some success in this objective is indicated by the sudden willingness of the USSR to confer with Chinese representatives regarding the Sinkiang air operations. The current Board of Directors meeting in Alma Ata has brought together Chinese and Soviet air transport representatives on the policy level for the first time in several years.

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Basically, however, the Chinese are too weak to prevent a continuation of the Soviet domination of air traffic in Sinkiang. The most they can hope to achieve is the illusion of Chinese participation in the management of the so-called "joint" enterprise. There are indications that the present Soviet policy is to mollify China, and that face-saving concessions of this type may actually serve the Kremlin's ends.

Circumstances surrounding the Alma Ata discussions suggest that prior to the conference China and the USSR may have reached an understanding in principle covering the basis for continued Soviet air penetration of Sinkiang. There is even some possibility that China may have promised the USSR to exclude from Sinkiang US Embassy aircraft which have irritated the USSR by recent flights, believed in Moscow to be intelligence missions.

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